

# Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name <b>Reed City Housing Commission</b>	County <b>Osceola</b>
Audit Date <b>6/30/05</b>	Opinion Date <b>12/21/05</b>	Date Accountant Report Submitted to State: <b>2/9/06</b>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

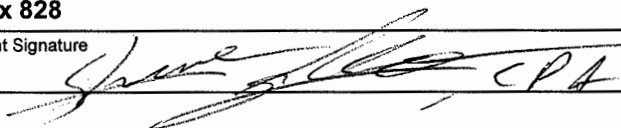
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) <b>Anderson, Tackman &amp; Company, PLC</b>			
Street Address <b>Po Box 828</b>	City <b>Iron Mountain</b>	State <b>MI</b>	ZIP <b>49801</b>
Accountant Signature 		Date <b>2-9-06</b>	

**REED CITY HOUSING COMMISSION**

**REPORT ON FINANCIAL STATEMENTS**

(with supplemental information)

For the Year Ended June 30, 2005

## REED CITY HOUSING COMMISSION

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**ANDERSON, TACKMAN & COMPANY, P.L.C.**  
CERTIFIED PUBLIC ACCOUNTANTS

*A Regional Firm with Offices in Michigan and Wisconsin*

Principals - Iron Mountain:  
L. Robert Schaut, CPA  
David J. Johnson, CPA  
Shane M. Ellison, CPA

Member of:  
Private Companies Practice Section  
American Institute of Certified  
Public Accountants

**INDEPENDENT AUDITORS' REPORT**

Board of Commissioners  
Reed City Housing Commission  
Reed City, Michigan

We have audited the accompanying basic financial statements of the business-type activities of the Reed City Housing Commission, a component unit of City of Reed, Michigan, as of and for the year ended June 30, 2005 as listed in the Table of Contents. These basic financial statements are the responsibility of the Commission's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Reed City Housing Commission as of June 30, 2005, and the respective changes in financial position and cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 21, 2005 on our consideration of the Reed City Housing Commission's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 5 through 8 is not a required part of the financial statements but is required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Reed City Housing Commission's basic financial statements. The Financial Data Schedule is presented for the purpose of additional analysis as required by the U.S. Department of Urban Housing and Development and is not a required part of the basic financial statements. The Financial Data Schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



ANDERSON, TACKMAN & COMPANY, PLC  
Certified Public Accountants  
Iron Mountain, Michigan

December 21, 2005

## MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED)

Our discussion and analysis of the Reed City Housing Commission's financial performance provides an overview of the financial activities for the year ended June 30, 2005. Please read it in conjunction with the Commission's financial statements, which begin on page 9.

### FINANCIAL HIGHLIGHTS

- Net assets for the entire Commission were \$2,316,775 at June 30, 2005 compared to \$2,398,373 at June 30, 2004.
- The Commission's operating revenues totaled \$757,198 for June 30, 2005 and \$818,021 for June 30, 2004, while operating expenses totaled \$854,162 for June 30, 2005 and \$915,748 for June 30, 2004.

### USING THIS REPORT

This annual report consists of a series of financial statements. The Statement of Net Assets, Statement of Activities, and the Statement of Revenues, Expenses and Change in Net Assets (on pages 9 to 11) provide information about the activities of the Commission as a whole and present a longer-term view of the Commission's finances.

### REPORTING THE COMMISSION AS A WHOLE

Our analysis of the Commission as a whole begins on page 9. One of the most important questions asked about the Commission's finances is "Is the Commission, as a whole, better off or worse off as a result of the year's activities"? The Statement of Net Assets, Statement of Activities, and the Statement of Revenues, Expenses, and Change in Net Assets report information about the Commission as a whole and about its activities in a way that helps answer this question. These statements include *all* assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. These two statements report the Commission's *net assets* and changes in them. You can think of the Commission's net assets – the difference between assets and liabilities – as one way to measure the Commission's financial health, or *financial position*. Over time, *increases or decreases* in the Commission's net assets are one indicator of whether its *financial health* is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the population of low income and elderly individuals.

In the Statement of Net Assets, Statement of Activities, and the Statement of Revenues, Expenses, and Change in Net Assets, the Commission's activities are reported as business-type activities:

- Business-type activities – The Commission charges rent to tenants to help cover all or most of the costs of services it provides.

## REPORTING THE COMMISSION'S MOST SIGNIFICANT FUNDS

Our analysis of the Commission's major activities begins on page 9. The financial statements provide detailed information on all of the Commission's activities. The Commission uses proprietary funds to account for its activities. The method of accounting for proprietary funds is explained below.

- *Proprietary funds* – The Commission charges tenants rent for the housing services it provides and these services are reported in a proprietary fund. Proprietary funds are reported in the same way for its activities and are reported in the Statement of Net Assets and the Statement of Revenues, Expenses, and Change in Net Assets.

## THE COMMISSION AS A WHOLE

The Commission's combined net assets at June 30, 2005 decreased \$(81,598) from June 30, 2004.

**Table 1**

### NET ASSETS

	June 30,	
	2005	2004
<b>Assets</b>		
Current assets	\$ 527,493	\$ 540,387
Capital assets (net)	<u>1,886,426</u>	<u>1,960,766</u>
Total assets	<u>2,413,919</u>	<u>2,501,153</u>
<b>Liabilities</b>		
Current liabilities	79,812	102,780
Other liabilities	<u>17,332</u>	<u>-</u>
Total liabilities	<u>97,144</u>	<u>102,780</u>
<b>Net Assets</b>		
Invested in capital assets, net of related debt	1,886,426	1,960,766
Unrestricted	<u>430,349</u>	<u>437,607</u>
Net Assets	<u>\$2,316,775</u>	<u>\$2,398,373</u>

Net assets of the Commission stood at \$2,316,775 at June 30, 2005 compared to \$2,398,373 at June 30, 2004. Unrestricted net business assets were \$430,349 compared to \$437,607 at June 30, 2004. In general, the Commission's unrestricted net assets are used to fund operations of the Commission.

**Table 2****CHANGE IN NET ASSETS**

	Year Ended June 30,	
	2005	2004
<b>Revenues:</b>		
Program revenues:		
Charges for services	\$ 248,646	\$ 260,043
Program grants and subsidies	496,595	510,944
General revenues:		
Other revenues	16,089	47,034
Unrestricted investment earnings	<u>11,234</u>	<u>7,655</u>
Total revenues	<u>772,564</u>	<u>825,676</u>
<b>Program Expenses:</b>		
Operating expenses	<u>(854,162)</u>	<u>(915,748)</u>
Change in net assets	(81,598)	(90,072)
Net assets - beginning of period	<u>2,398,373</u>	<u>2,488,445</u>
Net assets - end of period	<u>\$2,316,775</u>	<u>\$2,398,373</u>

**BUSINESS – TYPE ACTIVITIES**

Revenues for the Commission totaled \$772,564 compared to \$825,676 during June 30, 2004. The Commission's average unit months leased on a monthly basis had decreased during the current year. In addition, HUD operating funds and capital funding grants had increased during the current year. The Commission depends on HUD operating and capital grants to assist in covering its operating expenses.



## **CAPTIAL ASSETS**

### **Capital Assets**

The Commission had \$4,359,069 invested in a variety of capital assets including land, equipment and buildings at June 30, 2005 compared to \$4,334,751 at June 30, 2004.

**Table 3**

### **CAPITAL ASSETS Business - Type Activity**

	June 30,	
	2005	2004
Land and improvements	\$ 44,618	\$ 44,618
Building and improvements	3,869,170	3,754,555
Equipment	306,052	358,616
Construction in progress	<u>139,229</u>	<u>176,962</u>
Total	4,359,069	4,334,751
Less accumulated depreciation	<u>(2,472,643)</u>	<u>(2,373,985)</u>
<b>NET CAPITAL ASSETS</b>	<b><u>\$1,886,426</u></b>	<b><u>\$1,960,766</u></b>

The Commission invested \$76,881 in capital assets during the year ended June 30, 2005.

## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

The Commission's appointed officials considered many factors when setting the budget for the fiscal year 2005/2006. The current availability of low income and elderly tenants has been a major contributing factor in establishing the budgeted amounts. In the upcoming year, we do not anticipate any significant change in the occupancy rate and availability of new tenants that will provide any substantial increase in revenues. There continues to be a variety of inflationary cost and expense issues out of the control of the Commission. All of these were taken into consideration during the 2005/2006 budget process.

## **CONTACTING THE COMMISSION'S FINANCIAL MANAGEMENT**

This financial report is designed to provide the readers with a general overview of the Commission's finances and to show the Commission's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Commission's Executive Director, Anjanette Shoemaker, at 802 South Mill Street, Reed City, Michigan 49677, or call 231-832-2762.

**REED CITY HOUSING COMMISSION**

**STATEMENT OF NET ASSETS  
Proprietary Fund**

June 30, 2005

**CURRENT ASSETS:**

Cash and equivalents	\$ 314,495
Accounts receivable	3,719
Investments	196,638
Prepaid expenses	<u>12,641</u>

TOTAL CURRENT ASSETS	<u>527,493</u>
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**NONCURRENT ASSETS:**

Capital assets	4,359,069
Less accumulated depreciation	<u>(2,472,643)</u>

NET CAPITAL ASSETS	<u>1,886,426</u>
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TOTAL ASSETS	<u>\$ 2,413,919</u>
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**CURRENT LIABILITIES:**

Accounts payable	\$ 7,551
Accrued liabilities	<u>72,261</u>

TOTAL CURRENT LIABILITIES	79,812
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NONCURRENT LIABILITIES	<u>17,332</u>
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TOTAL LIABILITIES	<u>97,144</u>
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**NET ASSETS:**

Investment in capital assets, net of related debt	1,886,426
Unrestricted net assets	<u>430,349</u>

NET ASSETS	<u>\$ 2,316,775</u>
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The accompanying notes to financial statements are an integral part of this statement.



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**REED CITY HOUSING COMMISSION**

**STATEMENT OF ACTIVITIES**

For the Year Ended June 30, 2005

FUNCTIONS/PROGRAMS	Program Revenue			Net (Expense) Revenue and Changes in Net Assets
	Expenses	Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
BUSINESS-TYPE ACTIVITIES:				
Public Housing	\$ 854,162	\$ 248,646	\$ 496,595	\$ -
				\$ (108,921)
General revenues:				
Unrestricted investment earnings				11,234
Other				16,089
Total general revenues				27,323
Change in net assets				(81,598)
NET ASSETS, beginning of year				2,398,373
NET ASSETS, end of year				\$ 2,316,775

The accompanying notes to the financial statements are an integral part of this statement.

**REED CITY HOUSING COMMISSION**

**STATEMENT OF REVENUES, EXPENSES, AND CHANGE  
IN NET ASSETS  
Proprietary Fund**

For the Year Ended June 30, 2005

OPERATING REVENUES:

Tenant revenue	\$ 248,646
Program grants-subsidies	496,595
Other income	<u>11,957</u>

TOTAL OPERATING REVENUES	<u>757,198</u>
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OPERATING EXPENSES:

Administration	192,699
Tenant services	160
Utilities	102,717
Maintenance	143,375
Protective services	3,319
General	39,694
Housing assistance payments	220,976
Depreciation	<u>151,222</u>

TOTAL OPERATING EXPENSES	<u>854,162</u>
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OPERATING (LOSS)	<u>(96,964)</u>
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OTHER INCOME (EXPENSES):

Gain on sale of fixed assets	4,132
Interest income	<u>11,234</u>

TOTAL OTHER INCOME (EXPENSES)	<u>15,366</u>
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CHANGE IN NET ASSETS	(81,598)
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NET ASSETS, BEGINNING OF YEAR	<u>2,398,373</u>
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NET ASSETS, END OF YEAR	<u>\$ 2,316,775</u>
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ANDERSON, TACKMAN  
& COMPANY, P.L.C.  
CERTIFIED PUBLIC ACCOUNTANTS



The accompanying notes to financial statements are an integral part of this statement.



# REED CITY HOUSING COMMISSION

## STATEMENT OF CASH FLOWS Proprietary Fund

For the Year Ended June 30, 2005

### OPERATING ACTIVITIES:

Cash received from customers	\$ 247,756
Cash received from grants and subsidies	496,595
Cash payments to suppliers for goods and services	(422,722)
Cash payments for wages and related benefits	(239,419)
Cash payments for payment in lieu of taxes	(14,391)
Other receipts	<u>11,957</u>

NET CASH PROVIDED FROM OPERATING ACTIVITIES	<u>79,776</u>
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### CAPITAL AND RELATED FINANCING ACTIVITIES:

Proceeds from sale of fixed assets	3,834
Acquisition of capital assets	<u>(76,881)</u>

NET CASH (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(73,047)</u>
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### INVESTING ACTIVITIES:

Purchase of investments	(196,638)
Investment income	<u>8,501</u>

NET CASH (USED) BY INVESTING ACTIVITIES	<u>(188,137)</u>
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NET (DECREASE) IN CASH AND EQUIVALENTS	(181,408)
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CASH AND EQUIVALENTS, BEGINNING OF YEAR	<u>495,903</u>
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CASH AND EQUIVALENTS, END OF YEAR	<u>\$ 314,495</u>
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### RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:

Operating income (loss)	\$ (96,964)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	151,222
Changes in assets and liabilities:	
Decrease (Increase) in receivables	(890)
Decrease (Increase) in prepaid expenses	6,844
Increase (Decrease) in accounts payable	6,691
Increase (Decrease) in accrued liabilities	<u>12,873</u>

NET CASH PROVIDED FROM OPERATING ACTIVITIES	<u>\$ 79,776</u>
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The accompanying notes to financial statements are an integral part of this statement.



## REED CITY HOUSING COMMISSION

### **NOTES TO FINANCIAL STATEMENTS**

June 30, 2005

#### **NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

##### **THE REPORTING ENTITY**

The Reed City Housing Commission (Commission) was formed by the Reed City Commission under Public Act 18 of 1933 of the State of Michigan. The Commission operates under a Board of Commissioners appointed by the city manager of Reed City .

The Commission manages 101 units of low rent public housing units and 90 housing choice vouchers, of which, for financial reporting purposes, includes all of the activities relevant to its operations.

##### **Component Unit**

In evaluating how to define the Commission for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP, currently GASB Statement #14, *The Financial Reporting Entity*.

The criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be include in the reporting entity's financial statements include budget adoption, taxing authority, funding, appointment of the respective governing board, and scope of public service.

Based on the foregoing criteria, it was determined that there are no component units of the Reed City Housing Commission, but the Commission is a component unit of the Reed City, Michigan.

The accounting policies of the Commission conform to accounting principles generally accepted in the United States of America. The following is a summary of such significant policies.

##### **BASIS OF PRESENTATION**

The Commission presents its financial statements in accordance with Governmental Accounting Standards Board (GASB) Statement No. 34.

##### **Government-Wide Financial Statements:**

The Statement of Net Assets, Statement of Activities, and Statement of Revenues, Expenses and Change in Net Assets display information about the Commission as a whole. They include all business-type activities of the Commission. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

## **REED CITY HOUSING COMMISSION**

### **NOTES TO FINANCIAL STATEMENTS**

June 30, 2005

(Continued)

#### **NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

##### **BASIS OF PRESENTATION (Continued)**

###### **Proprietary Fund**

Proprietary Funds are used to account for operations, (a) which are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

##### **MEASUREMENT FOCUS AND BASIS OF ACCOUNTING**

Measurement focus is a term used to describe "which" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the measurement focus applied.

###### **Measurement Focus:**

The government-wide Statement of Net Assets, Statement of Activities, and the Statement of Revenues, Expenses and Change in Net Assets are presented using the economic resource measurement focus as defined below.

- a. The Commission utilizes an "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets, financial position and cash flows. All assets and liabilities, whether current or noncurrent, associated with their activities are reported.

###### **Basis of Accounting:**

The Statement of Net Assets, Statement of Activities, and Statement of Revenues, Expenses and Change in Net Assets are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

As allowed by GASB Statement No. 20, the Commission's business-type activity follows all GASB pronouncements and FASB Statements and Interpretations that were issued on or after November 30, 1989, except those that conflict with a GASB pronouncement.



**REED CITY HOUSING COMMISSION**

**NOTES TO FINANCIAL STATEMENTS**

June 30, 2005

(Continued)

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**ASSETS, LIABILITIES AND NET ASSETS**

- a. Cash and Equivalents – The Commission's cash and cash equivalents, as reported in the Statement of Cash Flows and the Statement of Net Assets, are considered to be cash on hand, demand deposits, and short-term investments with maturities of three months or less.
- b. Receivables – All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible.
- c. Due to and Due From Other Programs – Interprogram receivables and payables arise from interprogram transactions and are recorded by all funds affected in the period in which transactions are executed.
- d. Capital Assets – Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated capital assets are valued at their estimated fair market value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets.

Depreciation on all assets is provided on the straight-line basis over the estimated useful lives as follows:

Buildings and improvements	10-40 years
Furniture and other equipment	5-10 years

The Commission has adopted a capitalization policy for capital assets of \$500 per item.

- e. Compensated Absences - It is the Commission's policy to permit employees to accumulate a limited amount of earned but unused sick leave and vacation days, which will be paid to employees upon separation from the Commission. The cost of vested sick leave and vacation days are recognized as an expense as earned by the employees.
- f. Equity Classification

Government-Wide Statements:

Equity is classified as net assets and displayed in two components:

1. Invested in capital assets – Consists of capital assets, net of accumulated depreciation.



## **REED CITY HOUSING COMMISSION**

### **NOTES TO FINANCIAL STATEMENTS**

June 30, 2005

(Continued)

#### **NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

##### **ASSETS, LIABILITIES AND NET ASSETS (Continued)**

2. Unrestricted net assets – All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

##### **REVENUES AND EXPENSES**

Operating revenues and expenses are those that result from providing services and producing and delivering goods and/or services. It also includes all revenue and expenses not related to capital and related financing, noncapital financing, or investing activities. Expenses are classified by operating and nonoperating and are subclassified by function, such as salaries, supplies, and contracted services.

##### **OTHER SIGNIFICANT ACCOUNTING POLICIES**

###### **Interprogram Activity:**

As a general rule, the effect of activity between programs has been eliminated from the government-wide statements.

The transfers of cash between the various Authority programs are reported separately from revenues and expenses as operating transfers in or (out), unless they represent temporary advances that are to be repaid, in which case, they are carried as assets and liabilities of the advancing or borrowing program.

Interprogram receivables and payables are eliminated from the Statement of Net Assets.

###### **Budgets and Budgetary Accounting:**

Budgets are adopted on a basis prescribed or permitted by the Department of Housing and Urban Development. All annual appropriations lapse at fiscal year end. The Commission follows these procedures in establishing the budgetary date reflected in the financial statements:

1. The Director submits to the Board a proposed operating budget for the fiscal year commencing on July 1<sup>st</sup>. The operating budget includes proposed expenses and the means of financing them. Prior to June 30th, the budget is legally adopted by Board resolution.
2. Formal budgetary integration is employed as a management control device during the year.
3. The budget has been amended. Supplemental appropriations were made during the year with the last one approved prior to June 30th.



## REED CITY HOUSING COMMISSION

### **NOTES TO FINANCIAL STATEMENTS**

June 30, 2005

(Continued)

#### **NOTE B - CASH AND INVESTMENTS**

##### Cash and Equivalents

The Commission's cash and equivalents, as reported in the Statement of Net Assets, consisted of the following:

Petty cash	\$ 230
Checking accounts	88,570
Cash equivalents	<u>225,695</u>
 TOTAL	 <u>\$314,495</u>

*Custodial credit risk.* Custodial credit risk is the risk that in the event of a bank failure, the Commission's deposits may not be returned. State law does not require, and the Commission does not have a policy for, deposit custodial credit risk. As of June 30, 2005, the Commission had no custodial credit risk due to all of its deposits being fully insured.

##### Investments

The Commission's investments, as reported in the Statement of Net Assets, consisted of the following:

<u>Investment Type</u>	<u>Fair Value</u>	<u>(Investment Maturities in Years)</u>	
		<u>Less Than 1 Year</u>	<u>5-10</u>
Certificates of Deposit	<u>\$196,638</u>	<u>\$153,544</u>	<u>\$43,094</u>

Investments are recorded at fair market value, which is based on quoted market prices.

Michigan statutes authorize the Commission to invest in bonds, other direct obligations and repurchase agreements of the United States, certificates of deposit, savings accounts, deposit accounts or receipts of a bank which is a member of the FDIC, commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and matures within 270 days of date of purchase, bankers' acceptances of United States banks, obligations of the State of Michigan and its political subdivisions, external investment pools, and certain mutual funds.

*Interest rate risk.* Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of the Commission's investments. State law limits the allowable investments as described above. The Commission does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.



## REED CITY HOUSING COMMISSION

### NOTES TO FINANCIAL STATEMENTS

June 30, 2005

(Continued)

#### NOTE B - CASH AND INVESTMENTS (Continued)

*Credit Risk.* Credit risk is the risk that an issuer or other party to an investment will not fulfill its obligations. The Commission has no investment policy limiting its investments in excess of state law on investment credit. Ratings are not required for the Commission's investments outlined above. The Commission's investments are in accordance with statutory authority.

*Concentration of Credit Risk.* The Commission places no limit on the amount the Commission may invest in one issuer. However, the Commission is required to have all funds in excess of insured amounts to be collateralized. The Commission's investments and balances are with the following financial institutions:

Hutington Bank, Reed City, MI	\$ 147,002
Fifth-Third Bank, Reed City, MI	42,446
Chemical Bank, Reed City, MI	<u>7,190</u>
Total	<u>\$ 196,638</u>

#### NOTE C - CAPITAL ASSETS

A summary of capital assets as of June 30, 2005 is as follows:

	Balance 7-1-04	Additions	Deletions	Balance 6-30-05
Land and improvements	\$ 44,618	\$ -	\$ -	\$ 44,618
Building and improvements	3,754,555	114,615	-	3,869,170
Equipment	358,616	-	(52,564)	306,052
Construction in progress	<u>176,962</u>	<u>76,882</u>	<u>(114,615)</u>	<u>139,229</u>
	4,334,751	<u>\$ 191,497</u>	<u>\$ (167,179)</u>	4,359,069
Accumulated depreciation	<u>(2,373,985)</u>	<u>\$ (151,222)</u>	<u>\$ 52,564</u>	<u>(2,472,643)</u>
Net capital assets	<u>\$ 1,960,766</u>			<u>\$ 1,886,426</u>

Depreciation expense for the year was \$151,222.



## **REED CITY HOUSING COMMISSION**

### **NOTES TO FINANCIAL STATEMENTS**

June 30, 2005

(Continued)

#### **NOTE D - RISK MANAGEMENT**

The Commission is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Commission maintains commercial insurance covering each of those risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the Commission. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

#### **NOTE E - USE OF ESTIMATES**

The preparation of financial statements, in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### **NOTE F - VULNERABILITY DUE TO CERTAIN CONCENTRATIONS**

The Commission is dependent upon the Department of Housing and Urban Development (HUD) to fund its operations through operating subsidies and capital funding grants. Total operating revenues for the year ended June 30, 2005 totaled \$757,198 of which \$496,595 or 65.6% was from HUD subsidies and grants.

The operations of the project are subject to rules and regulations of HUD. These rules and regulations are subject to change. Such changes may occur with short notice and could create a lack of funding to pay for operational related costs, including the additional administrative burden to comply with the changes.

#### **NOTE G- PENSION PLAN**

The Commission has established a defined contribution plan of which the Commission contributes 12.92% of qualified wages. To be eligible, an employee must have twelve continuous months of service. The Commission contributions to the Plan during the year amounted to \$22,760.





**SUPPLEMENTAL  
INFORMATION**



**REED CITY HOUSING COMMISSION**

**FINANCIAL DATA SCHEDULE  
Proprietary Fund**

June 30, 2005

Line Item #	Account Description	Low Rent Public Housing	Housing Choice Vouchers	Public Housing Capital Fund Program	TOTAL
<b>ASSETS</b>					
<b>CURRENT ASSETS:</b>					
Cash:					
111	Cash - unrestricted	\$ 240,421	\$ 74,074	\$ -	\$ 314,495
100	Total cash	240,421	74,074	-	314,495
Accounts and notes receivables:					
126	Accounts receivable- tenants	1,251	-	-	1,251
126.1	Allowance for doubtful accounts - tenants	(265)	-	-	(265)
129	Accrued interest receivable	1,651	1,082	-	2,733
120	Total receivables, net of allowances for doubtful accounts	2,637	1,082	-	3,719
Other current assets:					
131	Investments - Unrestricted	123,155	73,483	-	196,638
142	Prepaid expenses and Other Assets	12,641	-	-	12,641
144	Interprogram due from	21,555	-	-	21,555
150	TOTAL CURRENT ASSETS	400,409	148,639	-	549,048

See accompanying notes to financial statements



**ANDERSON, TACKMAN  
& COMPANY, P.L.C.**  
CERTIFIED PUBLIC ACCOUNTANTS

**REED CITY HOUSING COMMISSION**

**FINANCIAL DATA SCHEDULE  
Proprietary Fund**

June 30, 2005

Line Item #	Account Description	Low Rent Public Housing	Housing Choice Vouchers	Public Housing Capital Fund Program	TOTAL
<b>NONCURRENT ASSETS:</b>					
Fixed assets:					
161	Land	44,618	-	-	44,618
162	Buildings	2,287,625	-	-	2,287,625
163	Furniture, equipment & machinery - dwellings	50,409	-	-	50,409
164	Furniture, equipment & machinery - administration	232,871	22,772	-	255,643
165	Leasehold improvements	1,581,545	-	-	1,581,545
166	Accumulated depreciation	(2,449,871)	(22,772)	-	(2,472,643)
167	Construction in progress	-	-	139,229	139,229
160	Total fixed assets, net of accumulated depreciation	1,747,197	-	139,229	1,886,426
180	TOTAL NONCURRENT ASSETS	1,747,197	-	139,229	1,886,426
190	TOTAL ASSETS	\$ 2,147,606	\$ 148,639	\$ 139,229	\$ 2,435,474

See accompanying notes to financial statements



ANDERSON, TACKMAN  
& COMPANY, P.L.C.  
CERTIFIED PUBLIC ACCOUNTANTS

REED CITY HOUSING COMMISSION

**FINANCIAL DATA SCHEDULE**  
**Proprietary Fund**

June 30, 2005

Line Item #	Account Description	Low Rent Public Housing	Housing Choice Vouchers	Public Housing Capital Fund Program	TOTAL
<u>LIABILITIES AND NET ASSETS</u>					
LIABILITIES:					
CURRENT LIABILITIES					
312	Accounts payable ≤ 90 days	\$ 7,551	\$ -	\$ -	\$ 7,551
321	Accrued wages / payroll taxes payable	2,813	-	-	2,813
322	Accrued compensated absences - current portion	6,190	3,278	-	9,468
331	Accounts payable - HUD PHA programs	-	22,151	-	22,151
333	Accounts payable - other government	13,543	-	-	13,543
341	Tenant security deposits	19,888	-	-	19,888
342	Deferred revenues	4,398	-	-	4,398
347	Interprogram due to	-	21,555	-	21,555
310	TOTAL CURRENT LIABILITIES	54,383	46,984	-	101,367
354	Accrued compensated absences - non current	10,426	6,906	-	17,332
350	TOTAL NONCURRENT LIABILITIES	10,426	6,906	-	17,332
300	TOTAL LIABILITIES	64,809	53,890	-	118,699

See accompanying notes to financial statements





ANDERSON, TACKMAN  
& COMPANY, P.L.C.  
CERTIFIED PUBLIC ACCOUNTANTS

**REED CITY HOUSING COMMISSION**

**FINANCIAL DATA SCHEDULE  
Proprietary Fund**

June 30, 2005

Line Item #	Account Description	Low Rent Public Housing	Housing Choice Vouchers	Public Housing Capital Fund Program	TOTAL
<b><u>NET ASSETS</u></b>					
508.1	Investment in capital assets, net of related debt	1,747,197	-	139,229	1,886,426
512.1	Unrestricted net assets	335,600	94,749	-	430,349
513	TOTAL NET ASSETS	2,082,797	94,749	139,229	2,316,775
600	TOTAL LIABILITIES AND NET ASSETS	\$ 2,147,606	\$ 148,639	\$ 139,229	\$ 2,435,474

See accompanying notes to financial statements



ANDERSON, TACKMAN  
& COMPANY, P.L.C.  
CERTIFIED PUBLIC ACCOUNTANTS

**REED CITY HOUSING COMMISSION**

**FINANCIAL DATA SCHEDULE  
Proprietary Fund**

For the Year Ended June 30, 2005

Line Item #	Account Description	Low Rent Public Housing	Housing Choice Vouchers	Public Housing Capital Fund Program	TOTAL
<b><u>REVENUES</u></b>					
703	Net tenant rental revenue	\$ 246,422	\$ -	\$ -	\$ 246,422
704	Tenant revenue - other	2,224	-	-	2,224
705	Total tenant revenue	248,646	-	-	248,646
706	HUD PHA grants	122,091	257,123	40,500	419,714
706.1	Capital grants	-	-	76,881	76,881
711	Investment income - unrestricted	8,350	2,884	-	11,234
715	Other revenue	9,454	2,503	-	11,957
716	Gain / loss on sale of fixed assets	4,132	-	-	4,132
700	TOTAL REVENUE	392,673	262,510	117,381	772,564

**EXPENSES**

Administrative:

911	Administrative salaries	80,475	19,579	-	100,054
912	Auditing fees	2,245	1,555	-	3,800
914	Compensated absences	4,392	2,691	-	7,083

See accompanying notes to financial statements



ANDERSON, TACKMAN  
& COMPANY, P.L.C.  
CERTIFIED PUBLIC ACCOUNTANTS

**REED CITY HOUSING COMMISSION**

**FINANCIAL DATA SCHEDULE  
Proprietary Fund**

For the Year Ended June 30, 2005

Line Item #	Account Description	Low Rent Public Housing	Housing Choice Vouchers	Public Housing Capital Fund Program	TOTAL
915	Employee benefit contributions- administrative	54,579	1,545	-	56,124
916	Other operating- administrative	17,863	7,775	-	25,638
	Total Administrative	159,554	33,145	-	192,699
Tenant services:					
924	Tenant services - other	160	-	-	160
Utilities:					
931	Water	22,145	-	-	22,145
932	Electricity	38,274	-	-	38,274
933	Gas	42,298	-	-	42,298
	Total Utilities	102,717	-	-	102,717
Maintenance:					
941	Ordinary maintenance and operations - labor	60,088	-	-	60,088
942	Ordinary maintenance and operations - materials & other	15,687	-	-	15,687
943	Ordinary maintenance and operations - contract costs	28,333	-	-	28,333
945	Employee benefit contributions- ordinary maintenance	39,267	-	-	39,267
	Total Maintenance	143,375	-	-	143,375

See accompanying notes to financial statements



ANDERSON, TACKMAN  
& COMPANY, P.L.C.  
CERTIFIED PUBLIC ACCOUNTANTS

**REED CITY HOUSING COMMISSION**

**FINANCIAL DATA SCHEDULE  
Proprietary Fund**

For the Year Ended June 30, 2005

Line Item #	Account Description	Low Rent Public Housing	Housing Choice Vouchers	Public Housing Capital Fund Program	TOTAL
Protective services:					
952	Protective services - other contract costs	3,319	-	-	3,319
General expenses:					
961	Insurance premiums	26,076	-	-	26,076
962	Other general expenses	47	-	-	47
963	Payment in lieu of taxes	13,543	-	-	13,543
964	Bad Debt - Tenant Rents	28	-	-	28
	Total General Expenses	39,694	-	-	39,694
969	TOTAL OPERATING EXPENSES	448,819	33,145	-	481,964
970	EXCESS OPERATING REVENUE OVER OPERATING EXPENSES	(56,146)	229,365	117,381	290,600
973	Housing assistance payments	-	220,976	-	220,976
974	Depreciation expense	151,222	-	-	151,222
900	TOTAL EXPENSES	600,041	254,121	-	854,162

See accompanying notes to financial statements



**REED CITY HOUSING COMMISSION**

**FINANCIAL DATA SCHEDULE  
Proprietary Fund**

For the Year Ended June 30, 2005

Line Item #	Account Description	Low Rent Public Housing	Housing Choice Vouchers	Public Housing Capital Fund Program	TOTAL
Other financing sources (uses)					
1001	Operating Transfers In	40,500	-	-	40,500
1002	Operating Transfers Out	-	-	(40,500)	(40,500)
1010	Total other financing sources (uses)	40,500	-	(40,500)	-
1000	EXCESS (DEFICIENCY) OF TOTAL REVENUE OVER (UNDER) TOTAL EXPENSES	\$ (166,868)	\$ 8,389	\$ 76,881	\$ (81,598)
MEMO account information					
1103	Beginning equity	\$ 2,154,485	\$ 92,579	\$ 176,962	\$ 2,424,026
1104	Prior Period Adjustments, Equity Transfers	95,180	(6,219)	(114,614)	(25,653)
1113	Maximum Annual Contributions Commitment (Per ACC)	-	286,482	-	286,482
1115	Contingency Reserve, ACC Program Reserve	-	53,835	-	53,835
1116	Total Annual Contributions Available	-	340,317	-	340,317
1120	Unit months available	1,212	1,080	-	2,292
1121	Number of unit months leased	1,158	894	-	2,052

See accompanying notes to financial statements

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Board of Commissioners  
Reed City Housing Commission  
Reed City, Michigan

We have audited the financial statements of the business-type activities of the Reed City Housing Commission as of and for the year ended June 30, 2005, which collectively comprise the Reed City Housing Commission's basic financial statements, and have issued our report thereon dated December 21, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Reed City Housing Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of the Reed City Housing Commission in a separate letter dated December 21, 2005.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Reed City Housing Commission's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to management of the Reed City Housing Commission in a separate letter dated December 21, 2005.

This report is intended solely for the information of the Board of Commissioners, management and the Department of Housing and Urban Development and is not intended to be and should not be used by anyone other than those specified parties.

*Anderson Tackman & Co. PC*

ANDERSON, TACKMAN & COMPANY, PLC  
Certified Public Accountants  
Iron Mountain, Michigan

December 21, 2005





**ANDERSON, TACKMAN & COMPANY, P.L.C.**  
CERTIFIED PUBLIC ACCOUNTANTS

*A Regional Firm with Offices in Michigan and Wisconsin*

Principals - Iron Mountain:  
L. Robert Schaut, CPA  
David J. Johnson, CPA  
Shane M. Ellison, CPA

Member of:  
Private Companies Practice Section  
American Institute of Certified  
Public Accountants

December 21, 2005

Board of Commissioners  
Reed City Housing Commission  
Reed City, Michigan

Dear Members of the Board:

In planning and performing our audit of the financial statements of the Reed City Housing Commission for the year ended June 30, 2005, we considered the entities internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

During our audit we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. The following summarizes our comments and suggestions regarding those matters. This letter does not affect our report dated December 21, 2005, on the financial statements of the Reed City Housing Commission.

1. During the review of cash and investments it was noted that the Commission did not have depository agreements in place with all the banks it does business with.

Recommendation

The ACC contract with HUD states that the Commission is required to have depository agreements signed by all financial institutions it does business with. The depository agreement states that the financial institution will insure any of the Commission's funds that exceed \$100,000. The Commission should have policies and procedures in place that would require all financial institutions it does business with to have signed depository agreements in addition to those banks holding over \$100,000 of the Commission's monies having pledge and collateral agreements in place.

2. During the review of disbursements it was noted that invoices were not cancelled upon payment.

Recommendation

The Commission should have policies and procedures in place that requires it to effectively cancel its invoices once they are paid. This could be done by either writing "Paid" or stamping "Paid" on each invoice along with the check number and date.

3. During the audit it was noted that the Commission maintained a separate set of financial statements for administrative fee activity as part of the voucher program.

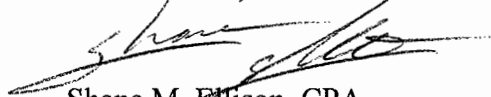
Recommendation

The Commission should close the administrative fee activity into the voucher program financial statements and combine them both under one program. There should not be two sets of financial statements for the voucher program and administrative fee activity. The administrative fee activity is not a program, thus should not have its own set of financial statements.

We thank you for the opportunity to be of service. Do not hesitate to contact us if you have any questions. I found your staff to be very cooperative and a pleasure to work with.

Very truly yours,

ANDERSON, TACKMAN & COMPANY, PLC



Shane M. Ellison, CPA  
Principal